

STATE OF DELAWARE  
DEPARTMENT OF FINANCE  
DIVISION OF REVENUE  
601 DELAWARE AVENUE  
WILMINGTON, DELAWARE 19899

TAX NEWSGRAM 71-6

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PERSONAL INCOME TAX

- Gain on sale of "Bonus" depreciation Asset

QUESTION: Does the sale of assets where taxpayer has claimed "bonus" depreciation on the federal return affect the state tax return?


For federal tax purposes taxpayers have been allowed additional first year "Bonus" depreciation prior to 1971. This bonus depreciation has not been allowed for state tax purposes. The adjusted basis at time of disposition would be different for federal and state tax purposes if the sale or exchange is made prior to full depreciation of the asset.

Example:

Assume taxpayer had acquired \$10,000 equipment in 1965 and had claimed bonus depreciation. The useful life of the asset was 10 years. Taxpayer sold the asset on 1/2/71 for \$4,000. The profit to be reported on the federal return would be different than the state return computed as follows:

<u>Federal Return</u>		<u>State Return</u>	
Cost	\$10,000	Cost	\$10,000
Bonus depreciation	<u>2,000</u>		
Adjusted Basis	\$ 8,000		
Depreciation 6 years		Depreciation 6 years	
@ 800 =	<u>4,800</u>	@ 1,000 =	<u>6,000</u>
Adjusted Basis date of sale	3,200	Adjusted Basis date of sale	4,000
Sales Price	<u>4,000</u>	Sales Price	<u>4,000</u>
Gain	800	Gain	-0-

The decrease in the gain would be reported as a modification on the State Tax return. This should be explained in detail on a separate sheet attached to the return.

  
J. H. Kennedy  
Director of Revenue

jvm

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